



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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May 13, 2009

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM:

Wendy L. Watanabe
Auditor-Controller

SUBJECT: **FORD THEATRE FOUNDATION FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT AS OF DECEMBER 31, 2007**

At the request of the Third District, we contract annually with an independent Certified Public Accounting firm to audit the financial statements of the Ford Theatre Foundation (Foundation). The Foundation is a non-profit, public benefit corporation that partners with the Los Angeles County Arts Commission and the Department of Parks and Recreation to support programs that nurture artists, arts organizations and the community.

For the year ended December 31, 2007, we contracted with Moss, Levy & Hartzheim, LLP (MLH) to perform the annual audit of the Foundation's financial statements. MLH issued the attached unqualified opinion on the Foundation's financial statements (Attachment I) indicating that the statements are presented fairly, in conformity with accounting principles generally accepted in the United States of America. MLH also prepared the attached management letter (Attachment II), which identifies a number of findings, such as the lack of segregation of duties over checks and bank reconciliations, and the need for a responsible official to review and sign invoices and reimbursement claims prior to payment.

We discussed the report with the Arts Commission, Parks and Recreation and the Foundation. The Foundation's response, included in Attachment II, indicates general agreement with MLH's findings and the actions they are taking to implement the recommendations.

Board of Supervisors
May 13, 2009
Page 2

Please call me if you have any questions, or your staff may call Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:MP:fl

Attachments

c: William T Fujioka, Chief Executive Officer
Russ Guiney, Director, Department of Parks and Recreation
Debbie Martin, Department of Parks and Recreation
Laura Zucker, Arts Commission
Ragen Carlile, Ford Theatre Foundation
Public Information Office
Audit Committee

FORD THEATRE FOUNDATION

FINANCIAL STATEMENTS

December 31, 2007

**FORD THEATRE FOUNDATION
FINANCIAL STATEMENTS
December 31, 2007**

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MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS:

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Ford Theatre Foundation
Hollywood, California

We have audited the accompanying financial statements of the Ford Theatre Foundation (Foundation) as of and for the year ended December 31, 2007, which collectively comprise the Foundation's financial statements as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the Ford Theatre Foundation as of December 31, 2007, and the respective changes in financial position, and cash flows, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2008, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial

reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
July 30, 2008

FORD THEATRE FOUNDATION
STATEMENT OF FINANCIAL POSITION
December 31, 2007

| ASSETS | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Cash and investments | \$ 169,978 | \$ 25,000 | \$ - | \$ 194,978 |
| Cash and investments with endowment foundation | 26,970 | | 250,000 | 276,970 |
| Interest receivable | 567 | | | 567 |
| Grants receivable | | 10,000 | | 10,000 |
| Prepaid expenses | 1,000 | | | 1,000 |
| TOTAL ASSETS | \$ 198,515 | \$ 35,000 | \$ 250,000 | \$ 483,515 |
| LIABILITIES AND NET ASSETS | | | | |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 12,295 | \$ - | \$ - | \$ 12,295 |
| Accrued payroll | 297 | | | 297 |
| Sales tax payable | 73 | | | 73 |
| Deposit payable | 1,793 | | | 1,793 |
| Payroll tax payable | 1,260 | | | 1,260 |
| Total current liabilities | 15,718 | | | 15,718 |
| Long-term liabilities: | | | | |
| Compensated absences | 3,502 | | | 3,502 |
| Total long-term liabilities | 3,502 | | | 3,502 |
| Total liabilities | 19,220 | | | 19,220 |
| NET ASSETS | | | | |
| Unrestricted | 179,295 | | | 179,295 |
| Temporarily restricted | | 35,000 | | 35,000 |
| Permanently restricted | | | 250,000 | 250,000 |
| Total net assets | 179,295 | 35,000 | 250,000 | 464,295 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 198,515 | \$ 35,000 | \$ 250,000 | \$ 483,515 |

The accompanying notes are an integral part of these financial statements

FORD THEATRE FOUNDATION
STATEMENT OF ACTIVITIES
Year ended December 31, 2007

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|-------------------|---------------------------|---------------------------|-------------------|
| Revenues and Gains | | | | |
| Program revenues | | | | |
| Private sector | \$ 116,385 | \$ 5,000 | \$ - | \$ 121,385 |
| Foundations and other non-profit sources | 27,500 | 10,000 | | 37,500 |
| Government | 39,000 | | | 39,000 |
| In-kind contributions | 161,042 | | | 161,042 |
| Ticket sales | 25,964 | | | 25,964 |
| Ford store revenues, net of expenses | 10,229 | | | 10,229 |
| Investment revenues | 12,799 | | 26,970 | 39,769 |
| Other revenues, net releases from restriction | 230,687 | (203,717) | (26,970) | |
| | <u>623,606</u> | <u>(188,717)</u> | | <u>434,889</u> |
| Total revenue and gains | | | | |
| Expenses | | | | |
| Program services | | | | |
| Big World Fun | 75,247 | | | 75,247 |
| Chamber Music | 66,485 | | | 66,485 |
| Community Bridges | 151,719 | | | 151,719 |
| Inside The Ford | 21,048 | | | 21,048 |
| Internships | 25,340 | | | 25,340 |
| Dance | 150,688 | | | 150,688 |
| Supporting services | 92,859 | | | 92,859 |
| | <u>583,386</u> | | | <u>583,386</u> |
| Total expenses | | | | |
| Change in net assets | 40,220 | (188,717) | | (148,497) |
| Net assets, beginning of year | 139,075 | 223,717 | 250,000 | 612,792 |
| Net assets, end of year | <u>\$ 179,295</u> | <u>\$ 35,000</u> | <u>\$ 250,000</u> | <u>\$ 464,295</u> |

FORD THEATRE FOUNDATION
STATEMENT OF CASH FLOWS
Year ended December 31, 2007

CASH FLOW FROM OPERATING ACTIVITIES

| | |
|---|----------------|
| Decrease in net assets | \$ (148,497) |
| Adjustments to reconcile decrease in net assets to net cash provided by operating activities: | |
| (Increase) decrease in operating assets: | |
| Prepaid expenses | (1,000) |
| Grants receivable | 119,000 |
| Deposit receivable | 9,632 |
| Increase (decrease) in operating liabilities: | |
| Accounts payable | 11,965 |
| Accrued payroll | (2,016) |
| Sales tax payable | (149) |
| Deposit payable | 1,793 |
| Payroll tax payable | 350 |
| Compensated absences | 3,502 |
| Net cash provided (used) by operating activities | <u>(5,420)</u> |

CASH FLOW FROM INVESTING ACTIVITIES

| | |
|--|--------------------------|
| Decrease (increase) investing assets: | |
| Interest received | <u>1,581</u> |
| Net cash provided (used) by investing activities | <u>1,581</u> |
| Net increase (decrease) in cash and investments | (3,839) |
| Cash and investments at beginning of year | <u>475,787</u> |
| Cash and investments at end of year | <u><u>\$ 471,948</u></u> |

RECONCILIATION TO STATEMENT OF FINANCIAL POSITION

| | |
|--|--------------------------|
| Cash and investments | \$ 194,978 |
| Cash and investments with endowment foundation | <u>276,970</u> |
| Total cash and investments | <u><u>\$ 471,948</u></u> |

FORD THEATRE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2007

| | Program Services | | | | | | Supporting Services | | Totals |
|------------------------------|------------------|------------------|----------------------|--------------------|------------------|-------------------|---------------------|------------------|-------------------|
| | Big World Fun | Chamber Music | Community Bridges | Inside the Ford | Internships | Dance | Admin | Fundraising | |
| Artist Fees | \$ 8,300 | \$ 26,500 | \$ 11,500 | \$ 13,000 | \$ - | \$ - | \$ - | \$ - | \$ 59,300 |
| Artist Travel & Housing | | 127 | 199 | | | | | | 326 |
| Bank Charges | | | 22 | | | | 13 | | 35 |
| Benefits | | | 5,936 | | | | 3,000 | | 8,936 |
| Consultants | | | 1,310 | | | | | | 1,310 |
| Credit Card Charges | | | | | | | 223 | 240 | 463 |
| Crew Costs | 6,395 | 5,875 | 240 | | | | | | 12,510 |
| Design Fees | 4,402 | 889 | 4,375 | | | 5,448 | | | 15,114 |
| Equipment | | | 241 | | | | | | 241 |
| Hospitality | 316 | 892 | 3,500 | | 80 | | 2,854 | | 7,642 |
| House Program | 368 | 1,846 | | | | | | | 2,214 |
| Insurance | 1,689 | 500 | 160 | | | | 1,047 | | 3,396 |
| Mailing and Postage | 2,826 | 6,555 | 1,399 | | | 6,081 | 350 | | 17,211 |
| Marketing/PR Fees | 750 | 2,829 | 306 | 3,000 | | 2,396 | | | 9,281 |
| Membership Fees | | | | | | | 973 | | 973 |
| Office Rent | | | | | | | 7,200 | | 7,200 |
| Office Supplies | | | 60 | | | | 123 | 58 | 241 |
| Other Production | | | 21 | 1,048 | | 245 | | | 1,314 |
| Other Administration | | | 104 | | | | 212 | 79 | 395 |
| Paid Ads | 27,060 | 2,468 | 1,644 | | 345 | 94,512 | | | 126,029 |
| Personnel | | | | | | | | | |
| Full Time | 3,000 | | 88,103 | | | 15,242 | 6,826 | 17,626 | 130,797 |
| Part Time | 3,600 | 3,000 | 9,381 | | | 3,237 | 18,177 | 12,118 | 49,513 |
| Seasonal | 42 | | 1,665 | | 24,895 | | | | 26,602 |
| Piano Tuning | | 250 | | | | | | | 250 |
| Preshow Fees & Expenses | 938 | | 69 | | | | | | 1,007 |
| Printing | 6,114 | | 272 | | | | 1,931 | | 8,317 |
| Production Expenses | | 4,254 | 29 | 1,000 | | | | | 5,283 |
| Professional Fees | | | | | | | 15,147 | | 15,147 |
| Purchases & Merchandise | 579 | | | | | | | 873 | 1,452 |
| Registration Fees | | | 1,575 | | 20 | | 2,220 | | 3,815 |
| Special Events | 801 | | 905 | | | | 35 | | 1,741 |
| Subscriptions & Publications | | | 4 | | | | | | 4 |
| Taxes & Fees | | | | | | | 95 | | 95 |
| Theatre Rent | 8,000 | 10,500 | 3,000 | 3,000 | | | | | 24,500 |
| Ticket Purchases | | | 5,481 | | | | | | 5,481 |
| Ticket Subsidies | | | | | | 23,527 | | | 23,527 |
| Transportation | | | 7,090 | | | | | | 7,090 |
| Travel | 67 | | 3,128 | | | | 1,439 | | 4,634 |
| Totals | \$ 75,247 | \$ 66,485 | \$ 151,719 | \$ 21,048 | \$ 25,340 | \$ 150,688 | \$ 61,865 | \$ 30,994 | \$ 583,386 |

The accompanying notes are an integral part of these financial statements

FORD THEATRE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Ford Theatre Foundation, a not-for-profit organization, plays a key role in making the John Anson Ford Theatre a center that fosters the excellence, diversity, vitality, accessibility and appreciation of the performing arts in Los Angeles County. The Foundation, in partnership with the Los Angeles County Arts Commission and Department of Parks and Recreation, supports programs that nurture artists, arts organizations and the community, providing a gateway for the people of greater Los Angeles to discover and understand cultures of their region and the world.

B. Reporting Entity

The Foundation is a nonprofit, tax-exempt, public benefit corporation incorporated under the laws of the State of California. The Foundation provides community support for the John Anson Ford Theatre in Los Angeles, California, to ensure the preservation of the Theater for Los Angeles County residents.

The Foundation is a reporting entity with no component units. The Foundation is governed by a 15-member Board of Directors.

C. Basis of Accounting

The Foundation uses the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

D. Financial Statements Presentation

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Foundation is required to present a statement of cash flows and a statement of functional expenses.

E. Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

F. Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restriction. Such contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the restriction.

FORD THEATRE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Cash and Cash Investments

For the purpose of the statement of cash flows, the Foundation considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of ninety days or less at the time of purchase. Excluded from this definition of cash equivalents are such amounts that represent funds that have been designated by the Board of Directors for investment.

I. Investment Securities

Investments in marketable securities with readily determinable fair values are valued at their fair value in the statement of financial position. Unrealized gains and losses are included as investment income in the statement of activities.

J. Property and Equipment

The Foundation capitalizes fixed assets when purchased. All of the Foundation's property and equipment is owned by Los Angeles County and are not considered capitals assets of the Foundation.

K. Income Taxes

The Ford Theatre Foundation is exempt from federal tax and franchise tax pursuant to IRS Section 501 (c) (3) and the State of California Revenue and Taxation Code Section 23701(d), respectively. The Foundation is not considered a private foundation.

L. Employee Retirement System

As of December 31, 2007, the Foundation had three full-time staff who were technically employed by a payroll and staffing company. The Foundation does not maintain an employee retirement system, although certain health care costs and retirement contributions were paid. Other personnel who performed services for the Foundation were either part-time employees employed by the payroll and staffing company or were full-time or shared employees of the County of Los Angeles.

M. Compensated Absences

Compensated absences are comprised of unpaid vacation and compensated time off. The Authority accrues the cost of these absences when they are earned.

FORD THEATRE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 2 – CASH AND INVESTMENTS

As of December 31, 2007, the Foundation maintained \$471,948 in cash and investments that consists of the following:

| | |
|------------------|-------------------|
| Deposits in Bank | \$ 194,978 |
| Endowment Fund | <u>276,970</u> |
| | <u>\$ 471,948</u> |

NOTE 3 – RESTRICTED NET ASSETS

The \$35,000 in temporarily restricted net assets consists primarily of grants specifically allocated to support certain programs. The temporarily restricted net assets consist of the following:

| | |
|---|------------------|
| Community Bridges – James Irvine Foundation | \$ 20,000 |
| Inside The Ford – Flintridge Foundation | 10,000 |
| Big World Fun – Nissan Foundation | <u>5,000</u> |
| | <u>\$ 35,000</u> |

The \$250,000 in permanently restricted net assets consists of a grant received from the County of Los Angeles to set up an endowment fund. The funds have been transferred to the custodianship of the California Community Foundation as of December 31, 2007.

| | |
|----------------|-------------------|
| Endowment Fund | <u>\$ 250,000</u> |
|----------------|-------------------|

NOTE 4 – RELATED PARTY TRANSACTIONS

The Foundation and the County of Los Angeles (County) are related parties. The Foundation is organized to provide artistic, community, and financial support for the use of the John Anson Ford Theatre, which is owned by the County of Los Angeles. The County donates the use of the Theaters and other support to the Foundation. In accordance with the Foundation's Bylaws, three of the fifteen authorized positions of the Foundation's Board of Directors are held by County employees by virtue of the position those employees hold at the County. The County contributes money to the Foundation, and based on the needs of the Ford Theatre, the Foundation contributes money and equipment to the County. In addition, the Foundation is not charged by the County for the rental of certain sound equipment that was previously donated by the Foundation to the County.

NOTE 5 – IN-KIND CONTRIBUTIONS

The Foundation receives donated services and goods from a variety of sources assisting in the operation and betterment of the Ford Theatre Foundation. These in-kind contributions are recognized on the statement of activities and consist primarily of the following:

| | |
|--|-------------------|
| Office Rent – Donated by County | \$ 7,200 |
| Theatre Facilities Use – Donated by County | 20,252 |
| Audit Services – Paid for by County | 15,147 |
| Advertising – Paid for by Corporate Donors | <u>118,443</u> |
| | <u>\$ 161,042</u> |

FORD THEATRE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 6 – COMPENSATED ABSENCES

Compensated absences are comprised of unpaid vacation and compensated time off. The Foundation accrues the cost of these absences when they are earned. The balance of compensated absences at December 31, 2007 was \$3,502.

| | <u>January 1, 2007</u> | | <u>Increase</u> | | <u>(Decrease)</u> | | <u>December 31, 2007</u> |
|----------------------|------------------------|----|-----------------|----|-------------------|----|--------------------------|
| Compensated Absences | \$ - | \$ | 3,502 | \$ | - | \$ | 3,502 |

NOTE 7 – CONTINGENCIES

According to the Foundation's staff, no contingent liabilities are outstanding and no lawsuits are pending of any real financial consequence.



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS:

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Ford Theatre Foundation
Hollywood, California

We have audited the accompanying financial statements of the Ford Theatre Foundation (Foundation) as of and for the year ended December 31, 2007, and have issued our report thereon dated July 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Foundation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Foundation's financial statements that is more than inconsequential will not be prevented or detected by the Foundation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Foundation's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain other matters that we reported to management of the Ford Theatre Foundation in a separate letter dated July 30, 2008

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ford Theatre Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Foundation's management and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
July 30, 2008

FORD THEATRE FOUNDATION
MANAGEMENT REPORT
AND
AUDITOR'S COMMUNICATION LETTER
December 31, 2007



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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July 30, 2008

Members of the Board of Directors
Ford Theatre Foundation
2580 Cahuenga Blvd. East
Hollywood, CA 90068

RE: Recommendations and suggestions resulting from the annual audit
of the Ford Theatre Foundation for the year ended December 31, 2007

Honorable Board Members:

Having completed the annual audit of the Ford Theatre Foundation's records for the year ended December 31, 2007, we would like to take this opportunity to bring to your attention a number of observations, recommendations, and suggestions we feel are appropriate at this time. The following findings, which we feel need to be reported, are:

Cash Disbursements

1. Finding – Invoices not properly defaced:

During the test of cash disbursements, it was noted that invoices are not being defaced with a "PAID" stamp after payment. Also, invoices are not being signed off as "ok to pay".

Effect:

When paid invoices are not defaced with a PAID stamp, the invoice could be resubmitted for payment and duplicate payments could occur. When invoices are not being reviewed and signed by a responsible official prior to payment, a misappropriation of funds could occur.

Recommendation:

We recommend that the Foundation ensure that invoices are reviewed and signed by a responsible official prior to payment. Also, we recommend that the Foundation deface all paid invoices with a "PAID" stamp, along with the check date, amount, and check number be written in ink on each paid invoice.

Foundation's response:

The Foundation will implement this recommendation.

Payroll/Personnel

2. Finding – Personnel documents and timesheets not retained:
During the test of payroll, it was noted that personnel action forms (documentation of wage rates) and timesheets for interns are not being retained.

Effect:

Without personnel documents such as personnel action forms being retained, it is impossible to verify the wage rates for employees, and if the wage rate is approved by management. Also, without timesheets for interns being retained, it is impossible to determine if they are being paid for the correct number of hours worked.

Recommendation:

We recommend that the Foundation ensure the personnel documents such as personnel action forms and timesheets for interns be retained for future verification.

Foundation's response:

The Foundation will implement this recommendation.

Board Minutes

3. Finding – Check registers not presented to Board Members for approval:
During the review of Board Minutes, it was noted that check registers are not being regularly presented to Board Members at Board Meetings for review and approval.

Effect:

Without presenting check registers to the Board Members for review, there is a lack of oversight of expenses of the Foundation by the Board of Directors.

Recommendation:

We recommend that check registers be presented on a regular basis to the Board Members at Board Meetings for review and approval.

Foundation's response:

This recommendation will be raised at the next Board of Directors meeting to discern if this is something the Board would like to implement.

4. Finding – Board Minutes not signed by preparer or approver:
During the review of Board Minutes, it was noted that the Board Minutes are not being signed by the preparer or a Board Member, verifying the authenticity of the Board Minutes.

Effect:

By not having the Board Minutes signed off by the preparer and an approver, it is impossible to verify the authenticity of the Board Minutes.

Recommendation:

We recommend that the Foundation ensure that all Board Minutes are signed by the preparer and also by a Board Member, to verify their authenticity.

Foundation's response:

The Foundation will implement this recommendation.

Reimbursements

5. Finding – Four reimbursement claim forms were not approved:

During the test of employee reimbursements, it was noted that four reimbursement claim forms did not contain approval signatures. (Check # 3692, 3575, 3556, 3525)

Effect:

Without an approval signature signifying that the reimbursement requested is allowable per the Foundation's policies, a misappropriation of funds could occur.

Recommendation:

We recommend that the Foundation ensure that all reimbursement claim forms be reviewed and approved by a responsible official, prior to payment.

Foundation's response:

The Foundation will implement this recommendation.

Merchandise Sales

6. Finding – Unapproved commission on merchandise sales:

During the test of cash receipts, it was noted that one merchandise sales information form contained a different commission rate for the Foundation. The rate was 15% when it is normally 25%. The form was also not signed by a Manager.

Effect:

Since the commission rate charged on this merchandise sales information form is lower than the correct rate usually charged by the Foundation, the merchandise sales commission was undercharged to the artist or group. Also, since there is no approval signature from the Manager, it is not known if the commission rates were approved, which could result in a misappropriation of funds.

Recommendation:

We recommend that the Foundation have the Manager reconcile and sign off on all merchandise sales information forms, to ensure that the correct commission rate is charged.

Foundation's response:

The Foundation will implement this recommendation.

Internal Controls

7. Finding – No preparer or approver signatures on bank reconciliations:

During the review of internal controls, it was noted that bank reconciliations are not being signed by the preparer and not being reviewed and signed by a responsible individual.

Effect:

If the bank reconciliations are not being signed by the preparer and not reviewed and signed by a separate individual, inappropriate payments could be made from the Foundation's account and not be detected timely; which could lead to a misappropriation of funds.

7. Finding – No preparer or approver signatures on bank reconciliations: (Continued)

Recommendation:

We recommend that the Foundation ensure that all bank reconciliations are signed by the preparer and are reviewed and signed by a responsible individual.

Foundation's response:

The Foundation will implement this recommendation.

8. Finding – Lack of segregation of duties:

During the review of internal controls, it was noted that a single individual performs all of the following functions:

1. Receives receipts in the mail, lists them, and deposits them.
2. Prepares accounts payable checks and handles them after signature.
3. Prepares bank reconciliations and handles cash receipts and prepares checks.
4. Enters wage rates and transmits the payroll information to the 3rd party payroll service.

Effect:

Without proper segregation of duties and lack of oversight, a misappropriation of funds could occur and go undetected.

Recommendation:

Proper internal controls call for the following separation of duties:

1. The individual that receives the receipts in the mail should be separate from the individual that lists the receipts, and separate from the individual that deposits them.
2. The individual that prepares the accounts payable checks should not handle the checks after signature.
3. The individual that prepares the bank reconciliations should not handle cash receipts or prepare checks.
4. The individual that enters wage rates and changes wage rates should be separate from the individual that transmits payroll information to the 3rd party payroll service. Also, a responsible individual should review and approve the payroll input, prior to submission for processing.

Foundation's response:

The Foundation will partially implement this recommendation. Due to the limited number of staff, it is not possible for separate individuals to prepare bank reconciliations and prepare checks, nor it is possible for separate individuals to enter wage rates and transmit payroll.

Accounting

9. Finding – Prior audited financial statements were not in compliance with SFAS Numbers 116 or 117:

During the review of the prior year's audited financial statements, it was noted that the financial statements were not prepared in accordance with SFAS Numbers 116 or 117.

Effect:

The prior year audited financial statements were not in compliance with required Statements on Financial Accounting Standards. This non-compliance could result in loss of funding and restatement of financial statements.

9. Finding – Prior audited financial statements were not in compliance with SFAS Numbers 116 or 117: (Continued)

Recommendation:

We recommend that the Foundation ensure that all audited financial statements are in compliance with SFAS Numbers 116 and 117, to ensure compliance with required standards.

Foundation's response:

The Foundation was unaware of this requirement as the prior auditor never mentioned it. We are now in full compliance with these two standards.

The recommendations and suggestions herein noted are of a general nature only and are not to be taken as criticism of current management. Should you wish to have a more detailed explanation or assistance in executing them, we would be happy to be of assistance in any way.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Beverly Hills, CA



MOSS, LEVY & HARTZHEIM LLP

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July 30, 2008

Members of the Board of Directors
Ford Theatre Foundation
2580 Cahuenga Blvd. East
Hollywood, CA 90068

We have audited the financial statements of the Ford Theatre Foundation for the year ended December 31, 2007, and have issued our report thereon dated July 30, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Ford Theatre Foundation. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Ford Theatre Foundation are described in Note 1 to the financial statements.

There were no significant new accounting policies adopted during the fiscal year. We noted no transactions entered into by the Ford Theatre Foundation during the year that were both significant and unusual, and of which, under professional standards we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Ford Theatre Foundation's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Ford Theatre Foundation, indicates matters that could have a significant effect on the Ford Theatre Foundation's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountants to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Ford Theatre Foundation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Directors of the Ford Theatre Foundation and management of the Ford Theatre Foundation and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Beverly Hills, CA